

Report to Stockholders

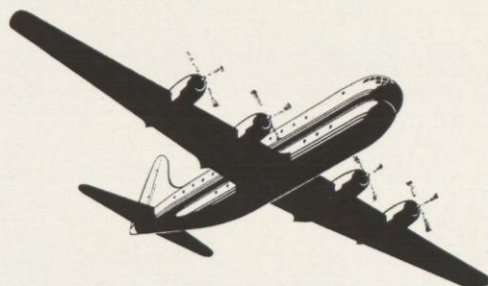
YEAR ENDED DECEMBER 31, 1946



MR. J.
Corp. File

BOEING AIRPLANE COMPANY and SUBSIDIARY COMPANIES





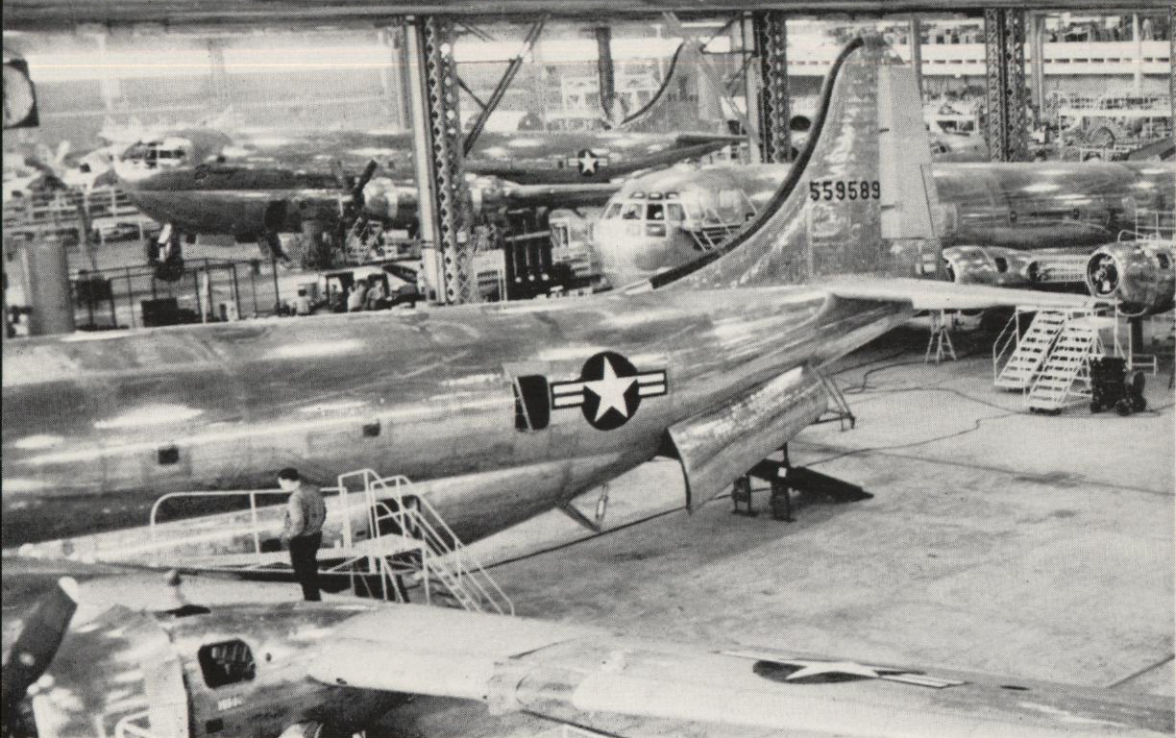
BOEING AIRPLANE COMPANY

and SUBSIDIARY COMPANIES

Corporate Structure

Boeing Airplane Company, with its head office in Seattle, Washington, operates a division at Wichita, Kansas. Boeing Airplane Company owns all of the capital stock of Boeing Aircraft Company, which operates plants at Seattle, Washington. Boeing Aircraft Company owns all of the capital stock of Boeing Aircraft of Canada Limited, an inactive Canadian company. In this report, for convenience, Boeing Airplane Company and Boeing Aircraft Company are collectively referred to as "the Company."

At left: Western Washington from 40,000 feet;
Mount St. Helens, foreground; Mount Adams, rear.
Boeing leads in high altitude flight research.



Annual Report

To the Stockholders of Boeing Airplane Company:

The Annual Report for the year 1946 covering the operations of Boeing Airplane Company and its subsidiary companies is submitted herewith.

BOEING ACTIVITIES IN 1946

Products of the Company delivered during the calendar year 1946 consisted principally of aircraft on order as of the termination of hostilities. At Seattle, sixty-two B-29's and one XC-97 military transport were delivered to the Army Air Forces. Two Model XF8B-1 experimental fighters were delivered to the United States Navy.

New products in the process of design and manufacture included the twin-deck Boeing Stratocruiser for commercial air lines; the Boeing B-50, a new advanced four-engine bomber based on the B-29 design but with substantially increased performance; the



BOEING DOUBLE-DECKERS IN PRODUCTION: Approaching final assembly doors at Plant II, Seattle, are Boeing Stratofreighters for the Army Air Forces, and, behind them, sections of Boeing Stratocruisers for commercial air lines. They are America's most advanced transport airplanes. In the left background, sections of Boeing B-50's are being assembled.

YC-97 Army cargo and troop transport, military version of the Stratocruiser and teammate of the B-50; and various experimental projects referred to hereafter.

Serious delays were encountered as a result of shortages of materials, changes in the aircraft required by new governmental regulations, and other causes. Consequently, no deliveries of complete aircraft of the new models were made during the year 1946.

Since the last report to stockholders, new contracts for Boeing Stratocruisers have been signed with United Air Lines and British Overseas Airways Corporation, bringing the total of these aircraft on order to fifty-five. Contracts had previously been entered into with Pan American World Airways, Swedish Intercontinental Airlines, Northwest Airlines and American Overseas Airlines. All of the Company's commercial contracts are on a fixed price basis and involve substantial down payments. Negotiations for further sales are continuing with both domestic and foreign air lines. In the belief

that there will be a market for further Stratocruisers, the Company is proceeding with preliminary work on additional aircraft of this type.

At Wichita, Kansas, the Company was engaged in work on an experimental contract for a new multi-purpose Army liaison airplane, the XL-15, and in the manufacture of certain assemblies for aircraft in production at the Seattle plant. The Wichita organization also carried on the preliminary design and development work on the Model 417 local service transport, up to the time that it was decided to drop the project because of unfavorable market conditions.

Further exploration and development in advanced fields of aeronautics, in most cases under contracts with the Army Air Forces, have been another Company activity. Construction of the XB-47, a multi-engine jet bomber of extremely advanced design, is nearing completion at Seattle and test flights are expected to begin in the summer of 1947. Work is proceeding, both in Seattle and on firing ranges, on the Boeing "GAPA" project—development of supersonic ground-to-air pilotless aircraft designed to seek out and destroy enemy aircraft or missiles. Facilities have been established in Renton, Washington, for combustion tests of high-speed ram-jet engines—another Boeing-AAF research and development project. Details of these projects are restricted because of their relation to national security.

The Company has been continuing its experimental development work on a small, auxiliary gas turbine engine. This work was undertaken to develop information concerning this new field and thereby enable the Company to evaluate and consider future aircraft use of such power plants. It is expected that the Government will participate in the further development of this engine.

During the year the Company continued its high-altitude flight research program, and completed one special program for the AAF which called for many extended flights at altitudes above 40,000 feet.

New evidence of the outstanding performance of Boeing airplanes was the establishment of eighteen world records by the AAF with B-29's, for speed and altitude at various payloads and ranges, out of a total of twenty-eight records set during the year in all types of Army aircraft. A further significant flight was that of the Army B-29 "Pacusan Dreamboat" from Hawaii to Cairo, Egypt—a distance

of 9,422 miles flown non-stop. A new route was pioneered over the polar region and the AAF was provided with invaluable data for future operation of long-range aircraft.

CURRENT OBJECTIVES

Reduction in Cost of Operation

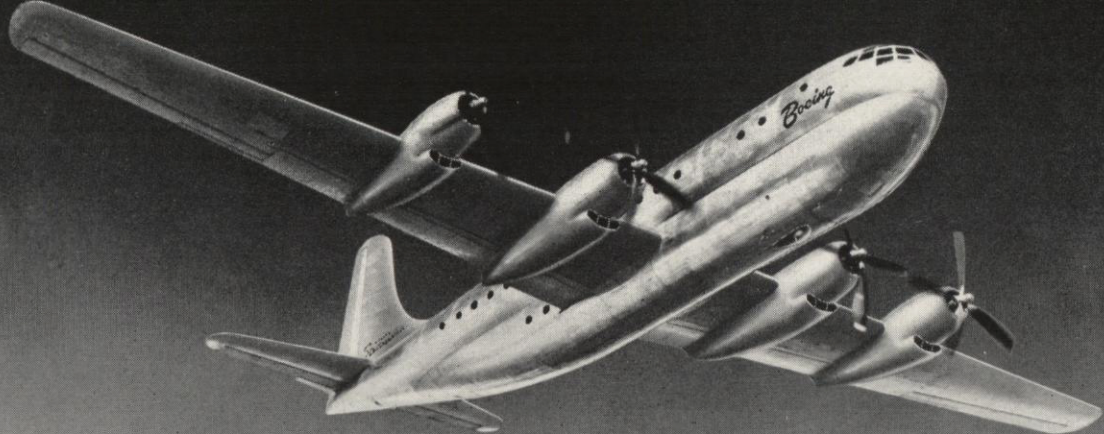
When the Government canceled the Company's wartime contracts in early September of 1945, Boeing was virtually a one-product Company—devoting its entire energies to the production of the famous B-29. For a period of over five years the Boeing organization had been under constant pressure to produce as many B-17's and B-29's as possible and to assist other companies in the same program.

That was as it should have been—but the effect was far reaching. At the termination of hostilities the Company had a huge organization—far greater than any possible peacetime need. It had become accustomed to quantity production and it had come to think in terms of maximum volume and speed of production. The organization and methods used for such production, while resulting in very low unit cost when distributed over large quantities, would result in unduly high unit cost when applied to small quantity contracts. Although personnel was radically reduced following the war, a tremendous transition in thought and action still remained necessary on the part of the organization in order to produce airplanes economically in relatively small quantities.

One of the principal objectives of management during the year 1946 was to bring this adjustment about as rapidly and as effectively as possible. The transition has not been easy, but it is felt that substantial progress has been made.

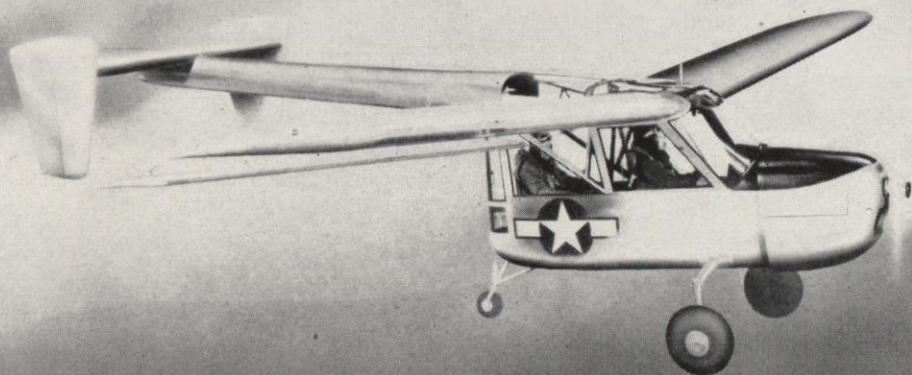
Design Advancement

The Company has always believed that in order to maintain its position in the industry a substantial and continuing research program was necessary. So many new scientific developments have taken place in recent years, with far reaching effects in the field of aeronautics, that the financial burden of keeping abreast of and contributing to these developments is extremely heavy. The success of Boeing, however, has been largely due to its ability to produce aircraft which represent substantial advances over competing models. In order to continue building "tomorrow's air-



WORLD STRATOCRUISER: Above, the 340-mile-an-hour, twin-deck Boeing 377 Stratocruiser, which will be the featured first-line transport plane on major trans-Atlantic and trans-Pacific routes, as well as on at least two United States transcontinental routes.

AND "FLYING JEEP": Below, smallest current Boeing product is the Wichita Division's XL-15 Army liaison plane, designed for artillery observation and multipurpose operation from small, unprepared fields. It has unexcelled vision, short take-offs, slow landings.



planes today" the Company will continue to devote a substantial part of its energies to research and development in aeronautical and allied fields.

Important use is being made of the Edmund T. Allen Memorial Wind Tunnel in exploring the many new fields of knowledge that must be further developed before aircraft in the high subsonic, transonic or supersonic speed ranges can become practical. This modern, Boeing-owned tunnel is proving invaluable in both the jet bomber and guided missile projects. It is the only privately-owned large-dimension wind tunnel capable of such work.

Integration of Facilities and Organization

A further objective is to bring the Company's operations as close together in a physical sense as possible.

There is always a substantial wastage of time and money resulting from employees' constantly moving from one area to another even though the distance is not great. Integration of all manufacturing operations, and their close proximity to engineering, purchasing and related activities, make for more economical and efficient operation.

The entire Wichita operation is now concentrated in the Company's own plant. At Seattle, with certain minor exceptions, operations are confined to Plant I (devoted primarily to experimental work), Plant II (the Company's principal plant) and adjoining Boeing Field where flight operations are carried on and repair and maintenance shops are located. As a further step in this unification program, practically all activities now carried on at Plant I will be transferred to Plant II during the year 1947. Thereafter Plant I will be principally used for storage purposes.

The vacating of Plant II at Wichita, owned by the Reconstruction Finance Corporation, has been completed with the exception of certain minor areas which are being leased for storage. Vacation of the RFC-owned plant at Renton, Washington, is near accomplishment, again with the exception of storage areas. The huge task of disposing of surplus materials and of accounting for Government-owned machinery and equipment in the Company's possession is expected to be completed in the very near future.

ACQUISITION OF CAPITAL ASSETS

As indicated in the report to stockholders for the year 1945, the Company has been negotiating with the Government for the purchase of certain Government-owned buildings at the main Seattle plant as well as for certain machinery and equipment.

Negotiations now embrace some additional items, required for current operations, not included at the time of the last report. It is anticipated that these negotiations will be completed shortly. The estimated cost to the Company of such acquisitions is approximately \$2,400,000. In addition the Company, during the past year, has purchased machinery and equipment necessary to new projects and has made certain building installations at a cost of approximately \$650,000. With the acquisition of the Government-owned buildings, machinery and equipment previously referred to, the Company will wholly own at Seattle a modern aircraft manufacturing facility.

The modernization of the smaller, Company-owned Wichita plant referred to in last year's report has made it a compact manufacturing unit.

INDUSTRIAL RELATIONS

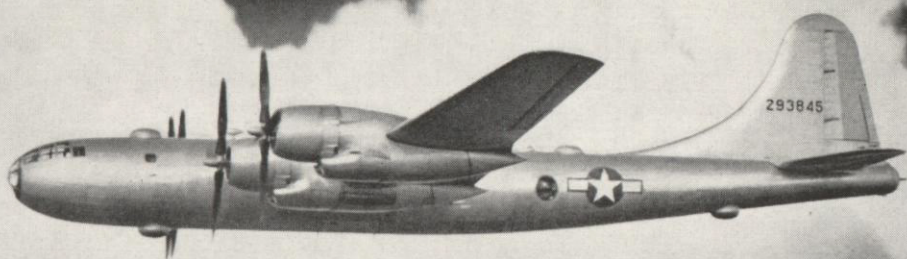
In Seattle the Company has a contract with the International Association of Machinists covering the period March 16, 1946, to March 16, 1947, and "thereafter until a new agreement has been reached by the parties either through negotiation or arbitration." Negotiations in which both parties are requesting substantial changes in the contract have been under way for some time. It is probable that it will be necessary to submit certain disputed points to arbitration.

During the year 1946, the Company at Seattle entered into a collective bargaining agreement with the Seattle Professional Engineering Employees Association, which agreement defines the salaries and working conditions of certain professional engineers in the employ of the Company. It is not anticipated that any substantial change will be made in this agreement during the year 1947.

The Wichita Division has an agreement with the International Association of Machinists which continues to November 5, 1947.

INCENTIVE PLAN

During the year the Company continued its studies to determine the advisability of recommending to stockholders the adoption of a pension or retirement plan for employees. The adoption of any satisfactory plan would involve the assumption by the Company of an obligation to make payment of a substantial amount each year irrespective of the earnings of the Company. The Board of Directors concluded that the consideration of any plan which



HIGHEST-PERFORMANCE AAF BOMBER: Above, the Boeing B-50, successor to the Pacific peace-making Boeing B-29 Superfortress. Design advancements throughout and power plants of increased horsepower give it substantially higher performance than the B-29.

AND ITS TEAMMATE, THE BOEING C-97: Below, the cargo and troop-carrying Stratofreighter, companion of the B-50, designed for similar high military performance, high utility and versatility. It shares many B-50 maintenance and operating procedures.



would impose a fixed obligation upon the Company without regard to its profits should be deferred until such time as the future prospects of the Company gave reasonable assurance of continuing earnings in substantial amounts.

The Board of Directors did conclude, however, that an incentive plan which would operate only in profitable years was advisable. The details of this plan are set forth in the proxy statement accompanying this report. In brief, the plan provides that not more than 6% of the net profits, before provision for Federal or State income tax, shall be distributed to officers and employees—the amount of the awards and the persons to receive the awards to be selected by a committee of three Directors of the Company, no one of whom shall be eligible for distributions. In no case shall any officer or employee receive more than 5% of the total distributed. Awards of over \$500, after reduction for amounts withheld under statutes, principally for income taxes, shall be half in cash and half in cash to be invested in stock of the Company (subject to limitations mentioned in the proxy statement) at substantially its market value on the date for distribution. In order that stock of the Company may be used for this purpose it is proposed that the stockholders approve the setting aside of 100,000 shares of presently authorized but unissued stock for possible issuance to employees over a period of time.

The Board of Directors is of the opinion that the incentive thereby engendered to produce a profitable operation, and the fact that the program will aid the Company in its efforts to retain and attract employees of exceptional ability, make the adoption of the plan highly desirable. In addition the development of stock ownership by employees should have a healthy effect.

Stockholders are urged to consider carefully the plan as it is described in the proxy statement. Since the favorable vote of a majority of the outstanding stock is necessary to make the program effective, each stockholder should send in his proxy.

PROFITS

It will be noted that the consolidated profit and loss statement shows a loss for the year of \$327,198, after transfers from reserves and the use of the loss carry-back provision of the Internal Revenue Code.

The aircraft delivered during the year were manufactured under cost-plus-a-fixed-fee contracts in which profit is taken up as

work is performed. Inasmuch as all these aircraft were substantially completed by December 31, 1945, the income therefrom was largely reflected in the financial statements for that year.

RESERVES

At the beginning of the year there was a balance of \$8,900,486 in the reserve for contract adjustments and indeterminate expenses resulting from war-time conditions. During the year a charge was made to this reserve in the amount of \$154,533, covering 1944 renegotiation after Federal taxes. An amount of \$600,000, covering part of the cost of post-war adjustments, was transferred from the reserve to profit and loss, so that at the end of the year a balance of \$8,145,953 remained in the reserve.

The reserve for development of post-war products and markets totaled \$7,675,000 at the beginning of the year. During the year \$650,000 was transferred from this reserve to profit and loss, representing the approximate net cost to the Company, after taxes, of development work and preparation for production of the Boeing Model 417. As stated elsewhere in this report, the Boeing 417 project was canceled toward the end of the year. The balance of the reserve, amounting to \$7,025,000, has been transferred to earned surplus.

RENEGOTIATION

In last year's report the following statement was made regarding renegotiation for the year 1945:

"The Company's contribution to the war effort during 1945 was relatively as great as or greater than that of previous years. However, there is no indication at this time what the renegotiation board's attitude will be with respect to a reasonable rate of profit in light of this contribution. It is not therefore possible to give any indication of how much, if any, the Company will be required to refund as excessive profits realized during 1945."

During the intervening period various data have been supplied to the renegotiation board regarding the Company's financial operations for the year 1945 and regarding its contribution to the war effort. The Company has been advised by the Board that in its opinion the Company realized excess profits during the year 1945. The Company further understands that the Board has not yet analyzed the data sufficiently to arrive at any conclusion with respect to the amount of such excess profits.

If excess profits are finally determined to exist the Company will be required to refund the portion (approximately 28 per cent thereof) remaining after giving effect to the Federal income and excess profits taxes paid thereon. The Company expects to charge any amount that it is required to pay by reason of renegotiation to the reserve provided for contract adjustment and indeterminate expenses. The Renegotiation Act by its terms is not applicable to any year beginning after December 31, 1945.

CURRENT POSITION

The Company continues to enjoy a sound financial position, a substantial portion of its current assets at the year end being represented by cash or United States Treasury Certificates of Indebtedness.

Inventories of work in progress and materials of the approximate amount of \$34,300,000 are valued at cost or market, whichever is lower, against which advances and/or progress payments totaling \$33,900,000 have been received. The investment in work in progress and materials will build up rapidly during the spring and summer of 1947, during which period few deliveries of completed aircraft will be made. It will be necessary during this period for the Company to make bank borrowings.

FEDERAL INCOME AND EXCESS PROFITS TAXES

The Internal Revenue Bureau has examined the tax returns of the Company for several of the war-time years. No indication has yet appeared that the Bureau will take exception to the Company's returns, except with respect to items which are not of major importance. However, the Bureau may contend that further taxes are due with respect to those years which it has not reviewed.

TERMINATION SETTLEMENTS

The Company's war-time contracts were terminated for the most part in 1945. The Contract Settlement Act enacted by Congress provides that a final settlement agreement may be entered into between a war contractor and the Government which has the effect, to a large extent, of relieving the contractor of further liability with respect to such contracts. Pursuant to this Act the Company has now entered into a final settlement agreement with respect to the contract for B-17 Flying Fortresses. Under this contract 6,335 Fortresses were produced during the war. Because the contract was on a cost-plus-a-fixed-fee basis the Company retains its right to collect from the Government any further legitimate

expense which is attributable to the performance of this contract. Negotiations are proceeding with respect to a termination agreement covering the contract under which B-29 Superfortresses were built in Seattle, Renton and Wichita, and it is expected that a final agreement will be entered into by the end of May, 1947.

BOEING AIRCRAFT OF CANADA LIMITED

As has been the previous practice, the financial statements of Boeing Aircraft of Canada Limited have not been consolidated with those of the domestic companies. Consequently none of the profits earned by the Canadian subsidiary are reflected in the consolidated financial statements. A balance sheet as at December 31, 1946, certified to by the Canadian company's auditors, is presented herewith. Since the close of the year the Canadian company declared a dividend, which covered all dividends that were in arrears on the preferred stock and provided in addition \$13.00 per share on the common stock. By permission of the Dominion Exchange Control Board this amount was remitted to Boeing Aircraft Company at the official exchange discount rate of approximately one-half per cent. The dividend totaled approximately \$650,000 U. S. dollars and will be reflected as income in the consolidated financial statements for the year 1947. It is understood that the Exchange Control Board may give favorable consideration to the repayment at the official rate by the Canadian subsidiary of a substantial part of the advances due the domestic companies in the approximate amount of \$117,000.

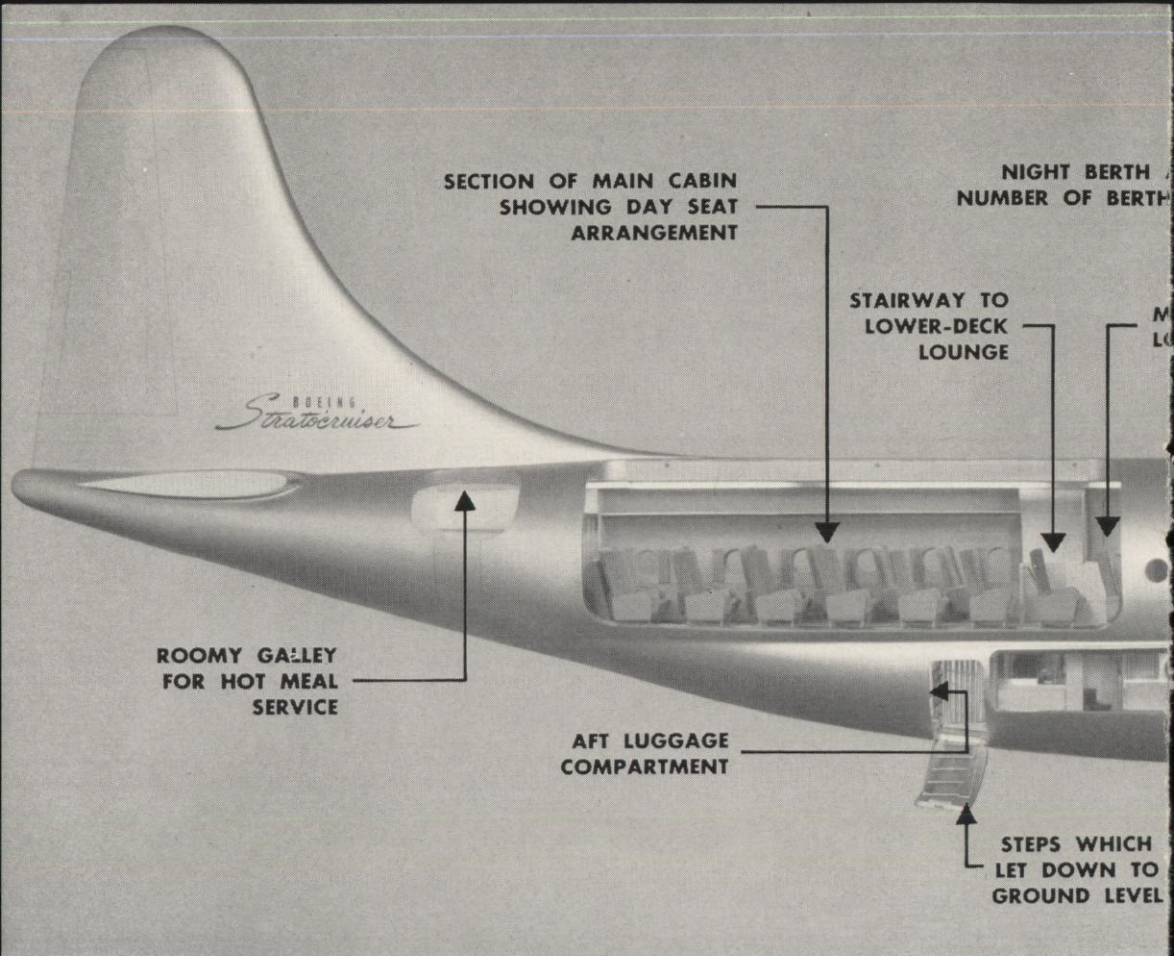
The Canadian subsidiary is inactive, and it is expected that a decision with respect to its future will be made this year.

THE OUTLOOK

Boeing Products

The Boeing Company takes pride in its reputation for the production of aircraft that are outstanding in their particular field. Through the war years the Flying Fortress, B-29 Superfortress and other Boeing planes did much to maintain this reputation. The Company recognizes its responsibility for the continuance of the high standard that has been associated with Boeing. It is felt that each of the new aircraft now under production is strong in its particular field.

The Boeing Stratocruiser, because of its high performance, its low operating cost, and its unequalled passenger comfort, should provide a tremendous impetus to the use of air transportation, both domestically and internationally. The Stratocruisers will



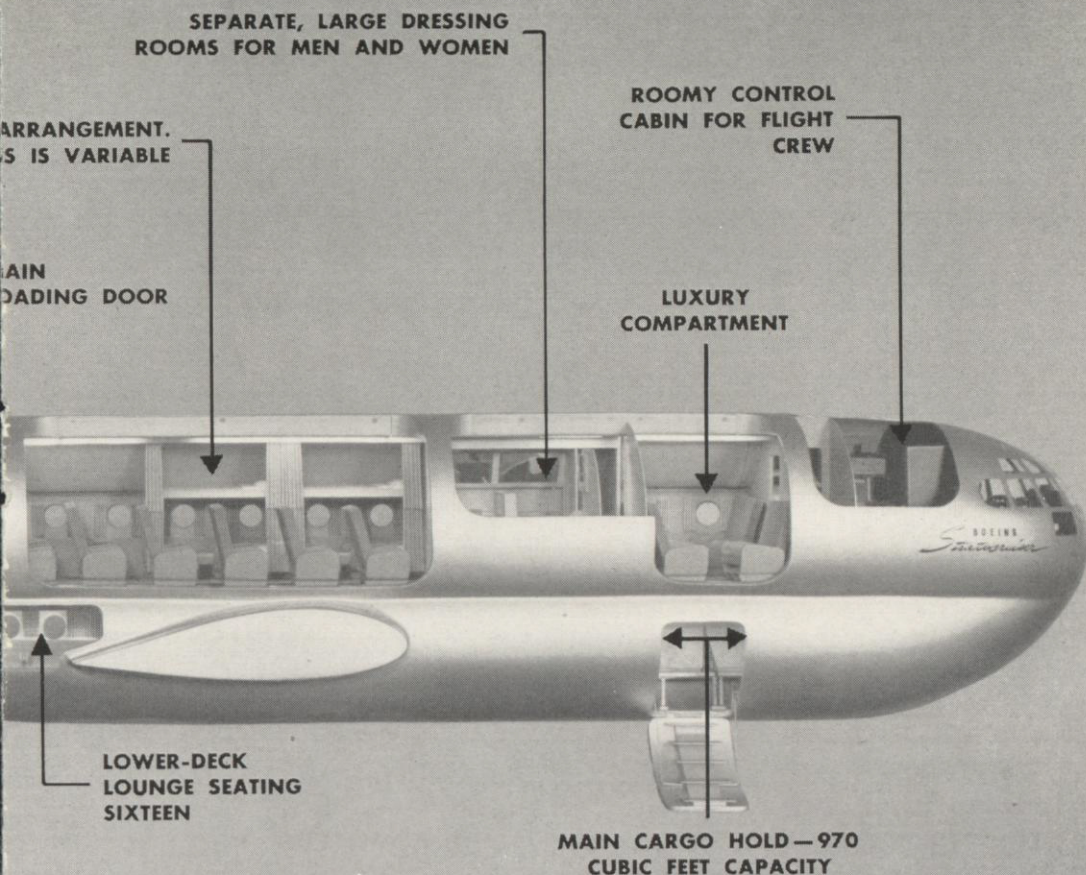
CUTAWAY VIEW OF BOEING STRATOCRUISER: Four qualities of the new Boeing Stratocruiser are expected to increase greatly the popularity and use of air transportation:

1. Its unusual provisions for passenger comfort;
2. Its low operating cost;
3. Its speed, which will exceed that of any other transport plane in production; and
4. Its sound engineering, reflecting the rugged characteristics and flight stability of the Boeing Flying Fortress and Superfortress.

The picture above shows interior accommodations, featuring roomy, air-conditioned, smooth-riding comfort. There's space to move around, with a lounge on the lower deck.

be flying the principal air routes of the world as flagships of the major U. S. and foreign carriers.

In the military field, the Boeing B-50 should prove the most outstanding bomber yet built, in all-around performance and military utility. Similar to the Boeing B-29 in outward appearance only, it embodies important design innovations throughout, including 59% more power. The B-50 should have an important role in the continuing national defense program.



The pressurized cabin has the advantage of unequalled Boeing experience in this field, first in the Stratoliner of 1939 and later in B-29's, thoroughly proved in war operation. Forward-looking air lines which have contracted for Boeing Stratocruisers to date are:

PAN AMERICAN WORLD AIRWAYS
 SCANDINAVIAN AIRLINES SYSTEM
 NORTHWEST AIRLINES
 AMERICAN OVERSEAS AIRLINES
 UNITED AIR LINES
 BRITISH OVERSEAS AIRWAYS CORPORATION

In the Army transport field, the Boeing C-97 offers not only the greatest operating economy and the highest performance of any available transport, but also has the advantage of design similarity to the Boeing B-50 bomber. C-97's in combination with the B-50 will provide an efficient military team.

The new Boeing XL-15 liaison plane, because of its versatility and its ability to operate from small fields, should likewise be a highly useful military airplane.

The XB-47, details of which are restricted military information, will represent the furthest design advance yet made in the field of multi-jet bombers.

Current Business

It is expected that during the year 1947 the Company will deliver all of the 60 B-50's covered by its first contract for that airplane and will also complete delivery of the 10 YC-97's on order. Although the first Stratocruiser is expected to fly in June, deliveries cannot be made until Company and Government test programs have been completed and the airplane has been certificated by the Civil Aeronautics Administration. It is hoped that some deliveries can be made in 1947 but the length of time required to obtain certification is an unknown quantity—particularly if the Civil Aeronautics Board adheres to its expressed intention that additional service tests will be required prior to the certification of new aircraft.

Unfilled orders on the Company's books as of December 31, 1946, totaled approximately \$210,389,000, of which \$75,773,000 were commercial and \$134,616,000 military.

It might appear that such a volume of unfilled orders should be sufficient to guarantee a continuous operation for a number of years. Such, however, is not the case. The requirements of the Company's customers, both commercial and military, for the earliest deliveries that can be met, call for a concentration of effort and do not permit a spreading of the work so as to prevent fluctuations in employment.

As of the date of this report, the Company's employment, totaling approximately 12,500, was increasing and was expected to reach a high of more than 17,000 employees by September, 1947. However, after it continues at this level for a few months, the total employment will again decrease.

National Security

Commercial business alone will not maintain a stable backlog of aircraft manufacturing, especially immediately following the present airline re-equipment program. This emphasizes the importance of a sound and continuing public program of military aircraft development and procurement if the country is to have an active and capable aircraft industry, which military authorities and Government bodies have concluded is essential to future security. Not only does this require a substantial amount of production activity, but it is also necessary that it be continuous. Fluctuations



PRODUCT OF EXPERIENCE: Design and manufacture of large, modern high-performance aircraft, and continued advancement of design, are possible only through accrued skills and abilities of many years. Above, the first Boeing YC-97 emerges from Plant II.

in employment are unavoidable at best, and when they are violent and prolonged, the skilled and experienced employees so necessary to a successful operation are lost to other industries.

The amount of business necessary to sustain a manufacturer of large airplanes today far exceeds the amount that was necessary prior to the war. The complexities of the present day aircraft, and the rapid advancements that have been made in the aeronautical and related fields, call for an organization of specialists and an investment in facilities far beyond that required a few years ago.

It is generally agreed that air power was of key importance in the recent war, and that American air power, so lacking at the outbreak of the war, can now be highly important as "peace power" and as security against future attack. If our nation hopes to retain the leadership in the air which it had toward the end of the war, the American people must recognize that this can only be accomplished through a substantial and continuing program of military aircraft procurement.

By order of the Board of Directors.

WILLIAM M. ALLEN,
President

March 26, 1947.

BOEING AIRPLANE COMPANY

CONSOLIDATED

December

ASSETS

CURRENT ASSETS:

Cash (including \$502,422 of restricted deposits)		\$ 7,017,640
United States Certificates of Indebtedness, at cost		30,362,778
Accounts receivable (including \$654,171 due from the United States)		837,612
Estimated Federal excess profits tax refundable under "carry-back" provisions of the Internal Revenue Code (\$4,726,126) less reserve for prior years' taxes (\$641,919) (Note 1)		4,084,207
Estimated recoverable expenditures and fees under cost-plus-a-fixed-fee contracts with the United States (Note 1)— On terminated contracts (including subcontractors' claims of \$870,891)	\$ 4,663,826	
On current contracts	1,429,014	6,092,840
Advances to suppliers		2,441,176
Work in progress and purchased materials and parts, at the lower of cost or market, (including \$23,216,400 on contracts as to which title has passed to the United States)	\$34,348,254	
Less—Progress payments	14,923,922	19,424,332
TOTAL CURRENT ASSETS		\$70,260,585

INVESTMENTS AND OTHER ASSETS:

Balances not yet due from the United States on emergency plant facility contracts (assigned to bank)	\$ 1,268,849	
Less—Reserve for Federal taxes applicable thereto	913,571	
	\$ 355,278	
Investment in and advances to Boeing Aircraft of Canada Limited, a wholly-owned subsidiary, not consolidated, at cost (Note 2)	727,805	
Deposits with mutual insurance companies, etc.	99,595	1,182,678

FIXED ASSETS, at cost:

Land and buildings	\$10,597,107	
Machinery, tools and equipment	5,568,145	
	\$16,165,252	
Less—Reserves for depreciation and amortization	13,560,625	2,604,627

DEFERRED CHARGES		217,501
		<u>\$74,265,391</u>

NOTE: The above consolidated balance sheet is subject to the

AND SUBSIDIARY COMPANY

BALANCE SHEET

31. 1946

LIABILITIES AND CAPITAL

CURRENT LIABILITIES:

Accounts payable and estimated subcontractors' termination claims	\$ 4,527,138
Accrued wages, taxes, etc.....	2,683,712
Unexpended balance of partial payments received from the United States for termination claims of subcontractors	502,422
Advances on commercial contracts	18,940,350

TOTAL CURRENT LIABILITIES	\$26,653,622
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NOTES PAYABLE TO BANK, payable in installments from reimbursements receivable from the United States under emergency plant facility contracts, the right of the Company to receive such reimbursements having been assigned to the bank

1,268,849

RESERVE for contract adjustments and indeterminate expenses resulting from war-time conditions (Note 1)

8,145,953

CAPITAL STOCK AND SURPLUS:

Capital stock—

Authorized—1,250,000 shares of \$5 par value

Issued and outstanding—1,082,454 shares, including 111³/₄ shares issuable for shares of common stock of United Aircraft & Transport Corporation when presented for exchange

\$ 5,412,270

Paid-in surplus

8,142,064

Earned surplus

24,642,633

38,196,967

\$74,265,391

notes to consolidated financial statements on a succeeding page.

BOEING AIRPLANE COMPANY AND SUBSIDIARY COMPANY

CONSOLIDATED PROFIT AND LOSS STATEMENT

Year ended December 31, 1946

Estimated contract charges and sales, consisting principally of costs and expenses considered to be reimbursable for termination activities and for production on cost-plus-a-fixed-fee contracts, including estimated fees thereon (Note 1)		\$13,984,063
Additional income on terminated contracts representing fees withheld in prior years		2,698,002
Interest and other income, net		444,995
		<u>\$17,127,060</u>
Cost of sales and expenses, other than those set forth below	\$16,098,433	
Development costs and expenses with respect to a discontinued project	2,189,016	
General and administrative expenses	1,867,296	
Sales and service expenses	1,136,627	
Research expenses	748,377	22,039,749
		<u>\$ 4,912,689*</u>
Other credits to income—		
Estimated refund of Federal excess profits tax under the "carry-back" provisions of the Internal Revenue Code (\$4,726,126) less net adjustments (\$1,390,635) of prior year's tax liability	\$ 3,335,491	
Transfers from reserves to cover expenses included above, net of tax effect, for which provision has previously been made (Note 1)—		
Development of post-war products and markets	650,000	
Contract adjustments and indeterminate expenses resulting from war-time conditions	600,000	4,585,491
Loss transferred to earned surplus		<u>\$ 327,198*</u>

* Asterisk indicates red figure.

Depreciation in the amount of \$174,722 is included in the above costs and expenses.

NOTE: The above consolidated profit and loss statement is subject to the notes to consolidated financial statements on a succeeding page.

BOEING AIRPLANE COMPANY AND SUBSIDIARY COMPANY

CONSOLIDATED EARNED SURPLUS ACCOUNT

Year ended December 31, 1946

Balance—January 1, 1946		\$19,027,285
Add—Transfer of balance of the reserve for development of post-war products and markets (Note 1)		7,025,000
		<hr/>
		\$26,052,285
Deduct—Loss for the year ended December 31, 1946	\$ 327,198	
Cash dividend paid, \$1 per share	1,082,454	1,409,652
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Balance—December 31, 1946		<u>\$24,642,633</u>

CONSOLIDATED PAID-IN SURPLUS ACCOUNT

Year ended December 31, 1946

Balance—January 1, 1946 and December 31, 1946	<u>\$ 8,142,064</u>
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NOTE: The above consolidated surplus accounts are subject to the notes to consolidated financial statements on the next succeeding page.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 1946

NOTE 1:

Termination settlements, renegotiation of 1945 profits under the Renegotiation Act, examination of Federal income and excess profits tax returns and other matters relating to the war years have not been completed as of December 31, 1946, and final effect thereof in the accounts of the Company is indeterminate at this time. The balances in the reserves for taxes and for contract adjustments and indeterminate expenses resulting from war-time conditions are believed to be adequate to cover additional liabilities and expenses which may result from these factors.

During the year 1946 the reserve for contract adjustments and indeterminate expenses resulting from war-time conditions has been charged with the net amount of \$154,533 in connection with the 1944 renegotiation settlement, and \$600,000 has been transferred to the profit and loss account in respect of unrecovered expenses, net of taxes, incurred during the year in reconversion and transformation from war to peace-time operations.

A transfer to the profit and loss account of the year has been made from the reserve for development of post-war products and markets to cover the cost, net of taxes (\$650,000), of a discontinued project, and the balance of the reserve (\$7,025,000) has been considered to be no longer necessary and transferred to earned surplus.

NOTE 2:

The investment in Boeing Aircraft of Canada Limited (a wholly-owned subsidiary, not consolidated) is stated at cost of \$727,805. The underlying book value, in Canadian dollars, is \$1,463,667 as shown on the separate balance sheet of the subsidiary. The earnings of the subsidiary for the year were \$5,199.

ACCOUNTANTS' REPORT

To the Stockholders.

BOEING AIRPLANE COMPANY:

We have examined the consolidated balance sheet of Boeing Airplane Company and Subsidiary Company as at December 31, 1946, and the consolidated statement of profit and loss and the consolidated surplus accounts for the year then ended. In connection therewith we reviewed the systems of internal control and the accounting procedures of the companies and examined or tested accounting records of the companies and other supporting evidence by methods and to the extent we deemed appropriate. Our examination was made in accordance with generally accepted auditing standards applicable in the circumstances and included all procedures which we considered necessary, except that it was not practicable to obtain satisfactory confirmations of receivables from United States Government departments and agencies, with respect to which we have satisfied ourselves by means of other auditing procedures.

In our opinion, the accompanying consolidated balance sheet and related statements of profit and loss and surplus fairly present the consolidated position of Boeing Airplane Company and Subsidiary Company at December 31, 1946, and the consolidated results of their operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the previous year.

ALLEN R. SMART & CO.,
Certified Public Accountants.

Seattle, Washington,
March 26, 1947.

BOEING AIRCRAFT OF CANADA LIMITED

CONDENSED BALANCE SHEET as at DECEMBER 31st, 1946 (IN CANADIAN DOLLARS)

ASSETS

CURRENT ASSETS:

Cash in Banks and on Hand	\$ 827,768.36
Accounts Receivable	3,777.04
Dominion of Canada 1¾ % Bonds and Accrued Interest (Market Value \$251,500.00)	250,731.16
Dominion Income Taxes Overpaid	35,556.63

TOTAL CURRENT ASSETS	\$1,117,833.19
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FIXED ASSETS, at Cost, Less Reserve for Depreciation	223.52
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PREPAID INSURANCE	581.54
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DEFERRED RECEIVABLE:

Refundable Portion of Excess Profits Tax	347,503.91
	\$1,466,142.16

LIABILITIES

CURRENT LIABILITIES:

Accounts Payable	\$ 2,475.00
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ADVANCES from U. S. Affiliated Companies	117,090.95
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TOTAL LIABILITIES	\$ 119,565.95
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CAPITAL STOCK AND SURPLUS:

Preferred Stock—6% Cumulative Redeemable (Note 2)	\$683,000.00	
Common Stock—No Par Value	10,046.20	
	\$693,046.20	
Surplus (Note 1)	653,530.01	1,346,576.21
		\$1,466,142.16

NOTE: The above Condensed Balance Sheet is subject to the Notes to the Condensed Balance Sheet on the next succeeding page.

BOEING AIRCRAFT OF CANADA LIMITED

NOTES TO CONDENSED BALANCE SHEET

DECEMBER 31st, 1946

NOTE 1:

The Surplus Account for the year reflects the inclusion of a previous year's reserve for contract adjustments in the amount of \$75,000.00 as all contracts in which the Company was engaged have been finally settled and termination expenses in connection therewith have ceased.

NOTE 2:

Dividends on the 6% Cumulative Redeemable Preference Shares are in arrears in an amount of \$477,610.00.

ACCOUNTANTS' REPORT

To the Shareholders.

BOEING AIRCRAFT OF CANADA LIMITED:

We report to the Shareholders that we have made an examination of the accounts of Boeing Aircraft of Canada Limited for the year ended December 31st, 1946, and have obtained all the information and explanations we have required.

We have examined the Condensed Balance Sheet of the Company as at December 31st, 1946, have reviewed the system of internal control and the accounting procedures of the Company and, without making a detailed audit of the transactions, have examined or tested accounting records of the Company and other supporting evidence, by methods and to the extent we deemed appropriate. Our examination was made in accordance with generally accepted auditing standards applicable in the circumstances and included all procedures which we considered necessary.

In our opinion, the accompanying Condensed Balance Sheet presents fairly the position of Boeing Aircraft of Canada Limited as at December 31st, 1946, and the results of its operations for the fiscal year, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

RIDDELL, STEAD, GRAHAM & HUTCHISON,
Chartered Accountants.

Vancouver, B. C.
February 12th, 1947.

BOARD OF DIRECTORS

WILLIAM M. ALLEN
President
Boeing Aircraft Company

WELLWOOD E. BEALL
Vice-President
Engineering and Sales
Boeing Aircraft Company

D. A. FORWARD
Senior Vice-President
The National City Bank of New York

HAROLD E. BOWMAN
Secretary and Treasurer
Boeing Aircraft Company

FRED P. LAUDAN
Vice-President
Experimental Manufacturing
Boeing Aircraft Company

DARRAH CORBET
President
Smith Cannery Machines Co.
Seattle, Washington

J. E. SCHAEFER
Vice-President
Wichita, Kansas

C. L. EGTVEDT
Chairman
Boeing Aircraft Company

DIETRICH SCHMITZ
President
Washington Mutual Savings Bank
Seattle, Washington

OFFICERS

WILLIAM M. ALLEN	President
C. L. EGTVEDT	Chairman
J. E. SCHAEFER	Vice-President
WELLWOOD E. BEALL	Vice-President—Engineering and Sales
JAMES P. MURRAY	Vice-President
HAROLD E. BOWMAN	Secretary and Treasurer

General Counsel
HOLMAN & SPRAGUE

General Auditors
ALLEN R. SMART & CO.

Transfer Agent

CITY BANK FARMERS TRUST COMPANY, NEW YORK

Registrar

THE NATIONAL CITY BANK OF NEW YORK, NEW YORK

Opposite page: Typical of the advanced flight problems being attacked by Boeing research: A Boeing GAPA test flight.



